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PDSL/SE/2022-23/133 May 23, 2022

Listing Department National Stock Exchange of India Limited Exchange Plaza, C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai -400 051 Scrip Symbol: PDSL	Corporate Relationship Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 Scrip Code: 538730

Re: ISIN - INE111Q01013

Sub: Transcript of Earnings Conference Call pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir/ Madam,

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and with reference to our intimation letter dated May 14, 2022, regarding Earnings Conference Call held on Tuesday, May 17, 2022 at 4:30 PM (IST) to discuss Company's Q4 and FY22 Financial Results, please find enclosed herewith the transcript of the aforesaid Earnings Conference Call for your kind reference.

The link to access the said transcript is mentioned hereinbelow:
https://www.pdsmultinational.com/investors/financial_reports/#investor-updates-and-call-transcripts

We request you to kindly take the above on record for the purpose of dissemination to the Shareholders.

Thanking you,

Yours faithfully,
for PDS Limited
(Erstwhile PDS Multinational Fashions Limited)

PDS Limited

Abhishekh Kanoi
Head of Legal & Company Secretary
ICSI Membership No.: F-9530

Encl.: As Above

"PDS Limited

Q4 FY2022 Earnings Conference Call"

May 17, 2022

ANALYST: **MR. SANDIP AGARWAL - EDELWEISS SECURITIES LIMITED**

MANAGEMENT: **MR. SANJAY JAIN - GROUP CHIEF EXECUTIVE OFFICER - PDS LIMITED**
MR. ASHISH GUPTA - GROUP CHIEF FINANCIAL OFFICER - PDS LIMITED
MS. REENAH JOSEPH - HEAD CORPORATE FINANCE, M&A & INVESTOR RELATIONS - PDS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the PDS Limited Q4 FY2022 Earnings Conference Call hosted by Edelweiss Securities. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities. Thank you and over to you Sir!

Sandip Agarwal: Thank you Inba. Good morning, good afternoon, good evening based on different time zones for people who are joining us for the call. On behalf of Edelweiss I would like to welcome you all to Q4 FY2022 and full year 2022 earnings call of PDS Limited. From the management today we have Sanjay Jain - Group CEO; Mr. Ashish Gupta - Group CFO; Reenah Joseph (Head Corporate Finance, M&A, and Investor Relations. I would now like to hand over the call to Mr. Sanjay Jain for his opening remarks. Over to you Sanjay!

Sanjay Jain: Thank you Sandip. A very good morning, afternoon and evening to all of you. Welcome to our Q4 FY2022 and full year 2021-2022 earnings call. To begin with we are excited to share some important highlights for this year. Firstly PDS has crossed the $1 billion topline for this fiscal year and secondly our manufacturing segment has turned profitable in Q4 of the financial year and therefore making a meaningful contribution to the consolidated PAT of the company. The numbers that I am going to mention in the opening remarks would be in rupees Crores, but for the convenience of our investors from the international arena in the investor presentation wherever possible we have tried to give them in USD equivalent as well.

In FY2021-2022 we reported a 42% growth with topline of 8828 Crores versus 6213 Crores last year with gross margin steady at 16.2% we reported EBITDA of 323 Crores with a 3.7% operating margin. This translated into a 40% growth versus 230 Crores EBITDA in the previous year. The EBIT at the same time increased by 70% this year to 339 Crores versus 200 Crores last year because of the sales growth, because of the EBIT expansion the profit after tax of the company increased by 97% at 293 Crores this year versus 148 Crores last year. The PAT margins expanded from 2.4% last year to 3.3% this year. The above growth and profitability were achieved amidst the apparel industry facing headwinds from the macro factors including the increasing input cost, freight cost and supply chain disruptions in various parts of the world. While earlier this year was disrupted by COVID the situation was further affected by the Russian Ukraine conflict and very off late the Sri Lankan turmoil. While with not at all any presence in the Russian and Ukraine countries this had a very limited direct impact on PDS since we do not have any meaningful operations there. However this Russian and Ukraine situation had a rub-off effect across the EU region increasing the fuel, freight and inflations thereof. If we talk of Sri Lanka, it at present contributes to approximately 7% of the total consolidated topline of the company. We are closely monitoring the situation given that the banking lines for our Sri Lankan operations are from Hong Kong, at present our operations largely remain unaffected and at present the operations running smooth there, we are keeping a close watch, but for now the impact is minimal on our operations.

On our sourcing segment which accounts for 96% of our topline it clocked 40% growth as compared to last year and our sourcing business reported an EBIT of 311 Crores and a ROCE of 43% as compared to 302 Crores of EBIT last year, so a 40% growth in the sourcing segment and a ROCE of 43%.

Our manufacturing segment reported a growth of 92% in the annual topline and we achieved 547 Crores this year. Further on a full year basis the PBT losses declined by 80% from 104 Crores in 2020-2021 to 19 Crores last year and our sincere efforts that we have been putting over more than a year 12 to 15 months have started showing results and in Q4 of last year the business actually made PBT margins of 3.1% as compared to a loss of 11.8% to sales in Q4 of the previous year. With our enhanced focus on running full capacity deriving efficiencies, disciplined execution, we are positive and aiming to achieve 5% PBT to sales over the next two years in our manufacturing facilities.

In the last financial year the company reported EBITDA margin of 3.7% which were largely same as last year; however, as we reflect on this some of the falling point needs some consideration. The EBITDA this year is after an impact of 44 Crores investment which is a debit to the profit and loss account this year that was our investment into new businesses. The EBITDA this year is also after an impact of ESOP cost of 22 Crores and there was nil ESOP cost in the corresponding period of last year. The third important factor is during this year our sales to US markets increased from 8% of our topline in FY2021 to approximately 16% in FY2022 and around 75% of these sales in FY2022 were based on LDP landed duty paid which have an element of freight cost. Due to this our freight cost increased by more than 200% in terms of absolute terms as compared to last year, it was about 25 Crores in FY2021 and now it is 82 Crores in FY2022. This was our first major year of increasing our efforts to derive maximum sales out of US markets and now we are increasingly focusing more on doing business with US on FOB basis rather than LDP basis. The fourth important factor that is important to consider and in FY2021 we had a large share of PPE business which contributed about 487 Crores of topline in FY2021 and about 69 Crores of EBITDA in FY2021 and current year it is a negligible business. So to summarize the EBITDA this year is after a one-off impact of ESOP cost, after 44 Crores of investment into new businesses and is reflecting after increase in the freight cost. If we try and add back the ESOP cost of 23 Crores, if we try and add back the freight cost, if we try and add back the new business losses and from the last year if we take out the PPE profits, then our EBITDA margin this year would actually be about 5.5%. So therefore what appears to be 3.7% last year, 3.7% this year after adjusting for PPE and all these one-time factors, the last year number would look at 3.4% and this year number would look at 5.5% or so, and allow me to add here as we shared in our previous investor releases as well that the investments that we are making into new businesses which in a normal scenario one invests into capex through the balance sheet they start yielding results over a three, four, five year horizon, in our case it is an expense that goes through P&L, but the potential as we shared with you as part of our last investor release previous quarter is that we have a potential of dividing $300 million of sales over three, four years from this investment into new verticals and about 4% of PBT and I am pleased to share with you that with the year that have just commenced we believe we should be getting closer to about 500 Crores plus in terms of topline from the new businesses as the contribution to this year topline and we aim to achieve a PBT breakeven from the new investment we are making. So therefore in summary the point I am making is that there is a sustainable closer to 5% little above that EBITDA that we have achieved in FY2022 if we do a normalized position. While I have highlighted the benefit or the rationale of the 44 Crores that has gone into new businesses, the ESOP cost that we have incurred we believe is a decision that has been taken by company in terms of retention of the talent and more importantly PDS as you know is an aggregation of verticals and through the ESOPs we have also tried to align the interest of the leadership team at the vertical level with the overall value creation agenda which is being pursued at the PDS level.

As a platform we have also been playing a lot of importance on stringent risk management and have been trying to constantly put some mechanism in place and as a result of this, as a result of the operating efficiencies that we have been aiming at, I am pleased to share with you that we have achieved a negative working capital of minus three days on FY2022 March ended FY2022 versus five days at the same position in the corresponding previous year. So we have actually achieved a delta of eight days over the two financial years and on one hand we have achieved a 40% plus growth rate over the year, but our net debt has actually reduced from about 59 Crores last year in March 2021 to a net cash position when I say net cash it is cash and bank balance in hand less the borrowings the net cash position is about 41 Crores, so there is a delta of about 100 Crores between March 2021 to March 2022. This relative squeeze on the capital of employed especially on the working capital plus the earnings growth have translated into the company achieving a return on capital employed on the net capital of 38% and return on equity of 31%. I believe we have put in efforts and ended the FY2022 on a positive note in line with our dividend distribution policy that was adopted earlier last year. The Board has recommended to the shareholders to consider a dividend of Rs.23.85 per share which translates to 238% of the face value and it is 25% payout of the earning per share. So the last year dividend was Rs.15.75 per share so there is a 51% growth year-over-year in terms of dividend per share.

Allow me to also clarify when we talk about 25% payout from the consolidated PAT of the company we have reduced the minority share and arrived at the PAT which is the PAT attributable to the public market shareholders and it is on that PAT that the Board has considered a 25% payout and recommended to the shareholders. As a global platform now we are aspiring to aim and achieve closer to $2.5 billion of annual business that we aim to handle in about five years from now which in a way translates to an average 15% growth that we believe we would like to target that this should be the annual volume that we would handle in a year in five years from now. We believe we have a strong ecosystem already in place and we have identified key areas to focus our platform and further strengthen it. On one hand as the organization is gearing up to handle this kind of annual business volume we are also trying to strengthen the platform that supports the verticals to achieve this topline and we believe we have built strong capabilities and have a good pipeline of opportunities both organic and strategic. If you may kindly recall we had earlier mentioned that we have signed up a strategic sourcing arrangement with s.Oliver of Germany and with Hanes of US and if I put both these together there is a potential that on an annualized basis these two strategic transactions should enable PDS handle a business volume of $450 million likewise we have similar such engagements in place with reputed large retailers and we are positive that all these efforts and engagement can translate to a similar volume of annual business getting added in a reasonable timeframe. So all put together the two strategic sourcing arrangements that we have tied up plus the final should enable company get to about $800 to $900 million of annual business volume that we would aim to handle as part of the strategic sourcing for our customers. We are at the same time treading cautiously and carefully with respect to the macro and micro factors that are around all of us and could have an impact on the value chain, but on the whole we remain positive in terms of this year ahead of us and the next four to five year horizon. At this stage I will be happy to have any questions and answer then if anybody have any questions please.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Prabodh Dassari from Tattva Capital. Please go ahead.

Prabodh Dassari: Hi! Thanks for the opportunity. Just wanted to understand the reason for the low tax rate of the company and the second question is on the demand scenario how do you see the demand playing out in the future, do you witness any reduction in demand because of higher cotton prices?

Sanjay Jain: On the first one the company has a global footprint in place. This is the global supply chain that we manage and also keeping in mind the substance requirement in the place of effective management, we have operations run out of Hong Kong a decent part of that is under offshore tax regime, which enjoys concessional benefits. We also have a strong substance, banking limits, a team handling our customers in the UAE part of the region and that also has a nil or concessional tax regime in place. As you know PDS has 50 offices across 22 countries, so due to this optimum presence across these jurisdictions mainly Hong Kong and UAE it has resulted into the overall effective tax rate of the company coming down, that is the response to your first question. On the second one I think as I said in the opening remarks because of the geopolitical situation, some of the macro factors, there is high inflation, there is a bit of turbulence in the EU region, so in the near-term one may see the retailers and customers trying to understand the impact and therefore exercise a little bit restrain coping up with whatever is happening, but for now our order books are strong for this quarter and next quarter as well, so we believe as we have been maintaining a 12% to 15% over our aspiration to achieve for this year we should be good. So to summarize there are some immediate term anxieties around, but over the entire year we do not see much challenges and I think you also are specific to the cotton prices yet the input prices have been on a rise, but we believe they should be stabilizing soon and our margins that are there at present we have tried to factor in those cost increases so we remain positive that for the entire year a 12% to 15% topline should be okay for us.

Prabodh Dassari: Just a followup on the first question. Is there a timeline till which we will have these tax benefits or is it open in it as of now?

Sanjay Jain: For example Hong Kong has an established offshore tax regime and there are no time limitations to this regime in place, so that exist number one. On UAE at present there is a little taxation, but we believe because of the global tie-ups and treaties there is a gradual introduction of about 9% tax rate in about two years or so, so that is the timeline with respect to UAE, but otherwise there are no limitations per se of the concessional tax benefit that is available to us.

Prabodh Dassari: Sure thank you and all the best. That is all from my side.

Moderator: Thank you. We will take our next question from the line of Riken Gopani from Capri Global. Please go ahead.

Riken Gopani: Thank you so much for the opportunity. First of all I would like to understand a little bit on the revenue front. Is the growth primarily coming from the new contracts and specifically focusing on the fourth quarter are the new contracts driving growth or is it being driven more by organic and the new ones are yet to kick in to the business if you could throw some light on the growth in the fourth quarter?

Sanjay Jain: See the new contract implies the s.Oliver strategic sourcing arrangement and then the Hanes arrangement would start making a meaningful contribution only from Q1 of this year. The last year did not have, it only got into shape by the end of the financial year then setting up of the office, office is operational, team is up and running, so business is now slowly gaining momentum, so that is on contribution of Hanes. On s.Oliver it did start contributing and I think the approximate amount that got it is about $10 million that number about 70 to 80 Crores from the s.Oliver arrangement in the last financial year. So therefore the growth that we have witnessed is mainly the organic growth in terms of doing more business with our existing customers to some extent adding new customers as well and also our manufacturing segment contributed 547 and it was almost like double 92% growth over last year that is where the growth is coming from.

Riken Gopani: Understood. Just a followup on the revenue piece, if I look at the geographic breakup that you have given it does reflect that you witnessed a sharp growth in the European geography in Q4 I think it is more than 20% kind of a growth correct me if I am wrong, is it being driven by the pricing changes given the way how commodities are globally panning out or is it being driven by volumes could you throw some more color, is it being driven by opening up and what is driving this kind of a strong growth in Europe and UK?

Sanjay Jain: The growth is largely driven by volume at present then actually of course there is always an element of price increase, but I think while the translation of the efforts to growth you are witnessing in Q4 but there are some structural changes that has happened in the preceding few quarters is that a lot of these small and medium factories of mid size which were without trying to cater to the UK new markets have come under pressure during COVID times be it the availability of banking lines, be it then able to meet the compliance requirements and PDS at the same time in a tough COVID year emerge far more stronger. So as the retail customer post COVID is trying to look at more credible counterparties in terms of sourcing requirements that is where PDS is also starting to win more business from the customers, so that is the reason of this increase that has happened in terms of the growth traction that we achieved.

Riken Gopani: So in that context given that you have seen reasonably strong traction in your core geographies plus the new orders will now ramp up in that context is that 12% to 15% more driven by the current uncertainties in terms of the growth guidance you can sort of throw some light on that?

Sanjay Jain: If I get your question right while we have achieved 40% plus growth rate, but at the same time I mentioned about 12% to 15% I think we would internally aim to do more, but at the same time we all are witnessing the geopolitical situation that is happening around the world, we all are witnessing the high inflationary trends, so as a result there is a bit of caution in our estimation for the entire year, our engagement with customers is robust, our order book is robust, but I think we will keep an eye on as situation unfolds maybe by the half of the year, but at this stage allow us to be a bit cautious in terms of the ecosystem around us.

Riken Gopani: Understood that clarifies the point. The next question that I had was on the current inflationary scenario and how it influences our operations it would require a lot of maybe price increases given how raw materials are moving you have alluded to in your presentation as well, so do these inflations have any particular influence on your operating performance, are your revenues as a percentage of the sourcing values if so in that case will it help your operating performance actually or could you clarify on these piece?

Sanjay Jain: I think the input price that have gone up typically our contract while our arrangements with our existing large customers are stable built over many years of relationship, but typically for the seasons ahead there is a discussion that happens on the design samples, volumes and the prices thereof, so therefore both the parties get to sit down, understand the input prices and accordingly factor them into the new contracts that get shaped up at least for the next two quarters or so and in the immediate preceding Q4 there has been an impact of the input prices on us in terms of our margins, but at the same time PDS is today $1.2 billion if I just do an approximate topline and about 16% gross margin there is a huge amount of cost of goods sold and there is a lot of scope on fabric as well as trim procurement and deriving the price benefit because of the volume procurement. So we believe we are hastening up our initiatives on that front and that should allow us to combat the prices impact because of the purchasing price benefits that is number one. We also as you may see from our investor presentation we have a licensed brand business poetic brands run out of UK, which at present is about $32 million in topline doing closer to 50% gross margin that business kind of went ahead and did a small acquisition of a company in UK that brand that we have licensed brand we have acquired is going to help us gain more traction on gross margin as well. So that is the direction we are taking plus we talked about the high margin categories that we touched upon last time in terms of the accessories. So slow migration, gradual migration to adding high margin category, the benefit of the procurement, synergies on a larger volume, the manufacturing contributing more just to add manufacturing on an average make about 35% gross margin and fourth point is that very humbly PDS is with every quarter passing by gaining a position of strength vis-à-vis positioning itself before the customer as a credible, stable and compliant partner in terms of compliance and financial stability and that therefore will bring in our additional ability to sit down and discuss with the customer and kind of mitigate the impact of margins that is the 3, 4 dynamics that is under play, but for the immediate future this quarter and next quarter I think the benefit of these initiatives that I spoke to you they would translate into results more in Q3, Q4 then actually in the immediate near-term.

Riken Gopani: Understood Sir that was very helpful. Thank you so much. Just one last question before I join the queue back is on the investment in ventures that you do what would be the guidance for the next year?

Sanjay Jain: Firstly before I talk about any guidance in terms of numbers I think what is important is the synergistic impact of these venture tech investments which are for example a D2C brand or investing into some technologies which are focused on the sustainability agenda in terms of minimizing the impact of the apparel value chain on the ecosystem and these investments on one hand are the contribution that PDS is making to the ecosystem but these investments are also an important consideration when a customer is looking at strengthening the relationship or a PDS is looking at strengthening the relationship with the customer wherein they have seen as a very responsible corporate citizen in terms of impact, so therefore these investments not only have a financial angle to it in terms of a return they can make they also have an important correlation with the business we do that is the rationale. Now to answer your question at present about 19% of the gross capital employed of the company on March 2022 has gone into the other segment we have tried to give a breakup of 7% treasury, 3% real estate and about 9% into venture tech. Now allow me to answer the question we believe over the next two, three years as we gradually move ahead we should be in the range of about 6% to 7% of the gross capital employed of the company, which at present is about 9% we believe in about a year or two, in fact in our investor release we have tried to mention that there is about Rs.5 Crores gain that has happened in this part 9%, but we have taken it in the balance sheet OCI rather than the P&L. So we believe in a year or two or we are hoping to get some realizations as a result to some extent it will be self-fulfilling so therefore to specifically answer your question about 6% to 7% of the gross capital employed is what we are looking at as a maintainable level of investments into Venture Tech.

Riken Gopani: Thank you so much for all the answers and all the best. Thank you.

Moderator: Thank you. We will take our next question from the line of Dhruv from Jay Ram Stock Brokers. Please go ahead.

Dhruv: Thank you for taking my question. My first question would be, in the previous question you just mentioned that only 6% to 7% of your capital employed will go into venture capital, but considering the company had such strong cash flows will PDS go a bit aggressive on that contest or they will just go in for 4% in real estate, 4% in your government securities, my question is why is not PDS being aggressive in the venture capital be if the cash flows are that strong?

Sanjay Jain: I think we do not intend to make any meaningful investment into real estate if at all you may kindly recall earlier in the first quarter in the last financial year we monetized one of the real estates and we would keep looking at opportunities to monetize during the current financial year as well, so we do not anticipate, I think our core business is sourcing, our core business is manufacturing and the surplus that we generate we have also adopted a dividend distribution policy and trying to deliver up to that and if at all we have chosen to invest it is into treasury which is into liquid and illiquid so we would make a reasonable allocation to that, but Venture Tech is not a mainline activity of the company, but it is an important activity which has a strong synergistic impact on our mainline businesses plus it is our contribution to the ecosystem as I said a responsible citizen. So I think allow us to try and channelize our cash flows more for our mainline activities and this is only the second year of dividend distribution I think we want to continue to remain focused on steadily generating strong cash flows and the ecosystem around us is also leading to lot of opportunities that we could consider in terms of getting into our hold, as you know we invest into new businesses but there are some small ticket size opportunities for example we mentioned about Sunny Up that we have mentioned in the investor release this company is doing about $0.4 million of EBITDA and we have acquired the company at about $1.2 million it is just about three times the EBITDA, these are small ticket opportunities that around us as well. To answer to your question allow us to channelize cash flows, conserve cash flows more for the mainline activities and allow us to carefully examine the opportunities that are unfolding in the ecosystem which are synergistic to what we are doing and then invest into them.

Dhruv: Thank you so much for the answer and my second question is just a clarification. As per the business model you had mentioned earlier also that PDS pays to its suppliers on a pay as we get basis, so it means that PDS does not pay its creditors till the time it does not receive amount from its debtors, so I am just trying to understand what happens if a particular debtor does not pay PDS, does the onus of paying the creditor is it on PDS or the creditors will also have to write-off its debt?

Sanjay Jain: I think the opening sentence that you mentioned in your question is our intended objective as we conduct our business, try and have a neutral or a negative work capital. So what we aspire for is can I conduct my business in a common manner that I am not in a cash out situation when I need to pay my vendor ahead of the realization, so on very simplistically basis this can be managed through managing the receivable and payable cycle trying to match them at the same time any selection of a customer, onboarding of a customer is through a rigorous credit assessment process and to a large extent we get the benefit of non-recourse factoring that is available with our banks so I get money faster and in a reasonable timeframe of few days with the non-recourse factoring the money is realized and to that extent basis the terms with the vendor we try and use that cash. We also explore the benefit of early payment discounts from the vendors, in fact I mentioned in response to one of the questions the initiative that we are taking to try and mitigate the impact of input prices and this EPD early payment discount is something that we are going to get this year as well, our customers are also to a large extent insured as well and now answering the later part of your question I think it is not about that if PDS has to do a write-off firstly we have not been experiencing any significant delinquencies they are at a very, very small single digit percentage and so therefore this is because of the careful approach when we do business with our customers but therefore it has not hurt us and we believe we have suitable mechanism in place, but for any such unforeseen situation if it arises PDS would remain committed to honor its obligation to its vendors, it is always our duty to clarify the risk to them but if that unforeseen situation happens I think we are committed to pay our vendors to that extent we will take the hit but while I have answered your question theoretically I have also given you a practical on ground situation wherein we do not have any meaningful delinquencies.

Dhruv: Thank you so much for your clarification. That is it from my side.

Moderator: Thank you. Our next question is from the line of Mukul Agarwal from Param Capital. Please go ahead.

Mukul Agarwal: Congratulations on excellent set of numbers. My question is our aspiration and our guidance is to reach $2.5 billion in next four to five years right?

Sanjay Jain: Yes, please.

Mukul Agarwal: Considering some economies of scale kicking in at that level is it too ambitious to expect like on 20000 Crores topline if we are able to achieve that 5% to 5.5% kind of PAT margin in four to five years?

Sanjay Jain: I think this year we have achieved improvement in PAT margin from 2.4% last year to 3.3% and we believe if we are inroad to 2.5% every year we should get 50 to 75 basis point improvement in the PAT margin, so if I have to therefore mathematically add this delta that we would require I think that possibility exists that we should be in that position when we are trying to handle the annual volume of business of 2.5 we should be closer to 5% yes.

Mukul Agarwal: If we are able to do a Rs.20000 Crores topline in four to five years a profit of 900 to 1000 Crores is achievable for a currently like 4000 Crores market cap company right with 40% plus ROCE and at that point the ROCE might shoot up to further more?

Sanjay Jain: Yes, allow me to restrict my answer to the topline that we are aiming at and the resultant impact.

Mukul Agarwal: Yes, these are my expectation and calculation I just wanted whether it is possible or not.

Sanjay Jain: Yes, it is possible and I think that is what we have aspired to do that is what we have tried to cover in our investor release and therefore at the cost of reputation if I try and answer your question again a 50 to 70 basis point improvement year-over-year should enable us get to about 5% so if we are getting to 20000 Crores there is a potential of annual profit after tax of 900 to 1000 Crores in about five years from now.

Mukul Agarwal: Great on this statement I can just say all the best.

Sanjay Jain: Thank you so much.

Moderator: Thank you. Our next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Thanks for the opportunity. Sir I wanted to ask like freight costs are passed through for us right?

Sanjay Jain: When we do the FOB business then there is no incurrence of freight cost for us but when we do LDP business yes they are a pass through but there are pass through like if I have already contracted a given order which get delivered over the six months and in the meanwhile the freight costs have gone up and then it cannot be a position of 100% pass-through, I also have to absorb a large part of it that is where we mentioned in the beginning that we are gradually trying to minimize the LDP business and do FOB and in FOB there is no freight cost.

Akshay Kothari: I am sorry I joined the call late so can you give a sense like how much percentage would be FOB and the other one CIF, LDP business?

Sanjay Jain: I can give you that number I think last year we did about LDP orders in FY2021 was approximately 423 Crores which were about approximately 7% of the sales and in FY2022 the LDP orders were about 1120 odd Crores and about 12% plus of the total sales, so that is the answer to your question. It is almost about nearly three times increase in the LDP business in FY2021 and FY2022.

Akshay Kothari: But this is recovering so this is a part of our sales as well?

Sanjay Jain: I am not sure if I get your question right, please.

Akshay Kothari: This is a part of our revenue as we would be recovering from customers, right?

Sanjay Jain: Yes, this is part of our revenue you are right, yes.

Akshay Kothari: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Mohammed Patel from Care Portfolio Managers. Please go ahead.

Mohammed Patel: Thanks for the opportunity. My question is that you said there was a 44 Crores impact on EBITDA some investments which are going through P&L so can you please throw some light on what these investments are and how does these P&L costs are expected to look like for next year?

Sanjay Jain: 44 Crores firstly is the net of the revenue and expenses that has gone into doing the new business, invest into a new business, so for example we did achieve about 300 Crores of sales from the new business in FY2022 and incurred a 44 Crores loss it is a gestation of the new businesses bulk of it were invested in the last 12 to 18 months that is clarifying where the 44 Crores number comes from and on the second part answering the question typically our investments are under the guiding principle that am I getting into a new vertical which is bringing new customers on board or am I getting into a new vertical which is getting a new category on board or a new geography on board. These are some of the three, four main inspirations that with which we invest, so some of the investments that we made in the last 12 to 18 months are on verticals to hasten our efforts to get more business out of US market, they are made to introduce home as a category into our offerings to a customer, they are being done to introduce accessories as a category to a customer as well. So these were our motivations and I mentioned earlier that we are looking at 500 Crores plus sales to come from new businesses in this financial year and aspiring to a PBT breakeven, but answering the next part of your question this is a like-to-like, apple-to-apple comparison that investments we have made and how are they evolving into the topline and EBITDA or PBT contributions this year, so we are on a constant lookout for further committing investment into new businesses. So this would be a constant endeavor that is one of the building blocks to the $2.5 billion journey and that we tried to clarify in the previous quarter investor release that the investments we have made should give us 2000 Crores of topline in about four years, PBT of 4% and about ROCE of 50% to 60% or so, so that is somewhere where we stand that this 44 Crores loss that we incurred on a like-to-like basis these investments should not have any EBITDA loss incurrence in the current financial year.

Mohammed Patel: That is helpful. My second question is what is your outlook on freight cost for next year so you mentioned the LDP is 12% of sales for FY0022 what can this percentage be for the next year because your sales will increase?

Sanjay Jain: Well on a lighter note if anybody’s guesswork where the freight costs are headed given the China situation lockdown it is also the availability or the lack of availability of container which also has an impact on these, but that is the macroeconomics around all of us. How I am trying to relatively insulate PDS P&L is to minimize the incidence of the freight cost by doing lesser LDP business which I just clarified that LDP business in our portfolio is mainly because of the business to US market and which was about 25% of the total business last year we are trying to bring it down to just if I give you a broad aspiration we have LDP should not be more than 10% to 15% of the business we do in US that is where we stand in terms of mitigating the impact on our P&L.

Mohammed Patel: That is it from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Sandip Agarwal from Edelweiss Securities. Please go ahead.

Sandip Agarwal: Hi! Sanjay, thanks for answering all the questions in quite detail. I have just one small question. When you do your business planning for the next three to five years you will have some 10, 12 top clients who would be contributing substantial portion of the toplines and bottomlines and then that list also will have eight to ten aspirational clients which you would be targeting via your strategy and when you take those 20-25 accounts which will be material for the next three to five years and similar to what happened in tech outsourcing industry in 90 if you see the growth came primarily from two areas one those clients themselves grew at a very phenomenal rate in last 20, 30 years and also there was consistent shift in two areas one the MNC vendors which were servicing them got replaced by the outsourcing vendor so that brought in a piece of growth and then another piece of growth came in from completely outsourcing what their in-house teams were doing so they got growth because of one plus one plus one three areas one is the client themselves spending more on tech which is a smaller portion of the overall growth, second replacing the MNC vendors which was another big chunk of growth and third more outsourcing happening from in-house employees getting replaced. So similarly when you see your 20, 25 clients which may include current clients and aspirational clients and you build up your financial model or business model around them for the next three to five years how does that growth look I am not asking for a concrete number but do you see that we will be on similar path how the tech industry evolved or it is too early to commence in that direction that is part one of my question. Part two of my question is that when you are doing this investment which we talked about and with the previous participant asked question about what are the key factors to decide where to invest with us it is a strategic one which means that you want to enter a new client or a new market or a new product line or it is that you also put in a isoquants where you are looking at on one axis you are trying to measure the return on incremental investment and on the other axis you are trying to optimize the return on management bandwidth which will go along with it so if you have any thoughts on these two areas will be very helpful? Thank you.

Sanjay Jain: Thanks Sandip. I think these are important questions. On the first one like the business growth in the immediate term and over a static horizon of three to five years comes from entering a new geography or in a given geography doing business with a new customer so therefore for example a business with goals is relatively new to us we are building this relationship from strength-to-strength a relationship with Wal-Mart in US is T.J. Maxx these are relatively new relationships which we believe there is tremendous potential for us to build up. Hanes is a new relationship relatively new we have been doing very small business and we have got a $400 million annual business strategic sourcing contract with them, but that is like we are mapping the ecosystem around us, we are assessing that in the western part of the world in US, how much of the consumption is happening in UK and EU, which are the clients we are serving, which are the clients they are not serving and then given the internal credit risk assessment metrics we make a shortlist and then we meaningfully engage to convert the engagement to a relationship, but the other important part is that with a given customer with whom we already have a relationship and that is where I think some of the two, three pointers that you mentioned become important is that the customer is growing on its own, COVID has seen consolidation in the retail customer end as well, so there are lesser and fewer retailers as compared to the pre-COVID scenario so the existing retailers have become more stronger so minimum I have to ensure is I have to grow in line with my existing retail customers and I am not touching upon the key factors that PDS has built to arrive at this position of strength wherein I can say with positive approach that I will minimum grow in line. Second is I need to grow faster than the growth of my customers so therefore if I am doing only apparel as a category, can I now do a larger share of wallet with home as a category, can I do accessories that is where I am trying to increase the share of the wallet. If the customer is focusing on the fact that e-commerce and fast fashion are gaining more traction then PDS global manufacturing sourcing footprint enables me cater to that need that is where my 60 plus factory network in Turkey becomes important to cater to the fast fashion need of my customer, so that is where I am now trying to grow faster than the customer. The third and important reason is if the customer is evaluating a strategic shift into its conduct that rather than the procurement teams sitting in house can I now let go to credible third parties and that is where our engagement with Hanes translated into a strategic sourcing contract and with s.Oliver and I touched upon a few more in the pipeline as well. So these are one, two, three in response to the first part of the question in terms of winning more customers in a geography doing more business with more categories and also if customer is pursuing e-commerce then my global footprint caters that need and then finally the strategic sourcing arrangement that is answering the part one. The part two in terms of the channelizing the generation of cash into newer investment I answered in response to a previous question the guiding principles of category, customer or geography, but then you ask me a question on return on capital versus the management bandwidth I think return on capital of course the IRR or the payback are the eventual key financial metrics to make our investment decision yes or no, but the second point to me is far more important on the management bandwidth and the way the PDS model is organized is that we are an aggregation of 40 verticals wherein I have an independent when I say independent in terms of the operational independence, there are policies, guidelines government framework of PDS, but there is a team on ground who has a incentive program in place in terms of our profit share is also aligned with the ease of game plan on the whole, but given that we operate in this decentralized environment and therefore when we look at making a new investment then we also look at who is the entrepreneur or who is the employee/entrepreneur who is coming on board who is going to take this investment ahead who is also sufficiently incentivized so therefore with the model that PDS has been successfully practicing over all these years, management bandwidth is important but PDS has been building, it augmenting it in a formant manner that this should not be relatively a constrained for us as we take our investment decisions ahead.

Sandip Agarwal: Thanks for that detailed answer. Thank you and best of luck for current quarter.

Moderator: Thank you. Our next question is from the line of Apoorva Bahadur from Investec. Please go ahead.

Apoorva Bahadur: Hi! Sir, thank you so much for the opportunity and congratulations on a very strong result. I wanted to understand on this ESOP cost which was 22 Crores for this year how should the factor is going ahead what could be the recurring impact of this if there is anything?

Sanjay Jain: I think whatever we have incurred in FY2022 we believe there could be a similar incurrence in FY2023 as well and thereafter it should start coming down in year two and year three thereafter as well, so similar levels in FY2023 and then gradually coming down. This is of course the assessment done as per Black-Scholes formula.

Apoorva Bahadur: Secondly during the quarter there was also a rise in other income was there any one-offs which was there?

Sanjay Jain: No, I do not think there were any one-offs the only one-off was in Q1 in terms of the monetization of real estate anything else has been recurring and in the normal course of our business.

Apoorva Bahadur: So why was such a sharp rise in other income what caused this?

Sanjay Jain: I am just requesting my colleague Reenah Joseph to answer specifically what was in last year and what is in this year.

Reenah Joseph: Last year there was impact of foreign exchange fluctuation which is a negative impact which is not there in this year so that is the reason why the quarter you are seeing a jump.

Apoorva Bahadur: Fair enough got your point. Lastly on the margin side we have guided like 50 to 70 bps increase in PAT margin front, but then given the cost inflation that we are seeing generally in commodities what would be the gross margin guidance if you could help us with that?

Sanjay Jain: I think in the near-term Q1, Q2 the gross margin we will keep a close watch because of the factors we mentioned earlier and any pressures on input we are anticipating they should kind of peak out by near the Q2 so that is where we are so in the near-term we are a bit cautious at the gross margin level and then that they should ease out then in the later part of the year.

Apoorva Bahadur: Thank you so much, very helpful. All the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Sanjay Jain for closing comments. Over to you Sir!

Sanjay Jain: Thank you so much everyone for joining us today and it was indeed a pleasure to have an engaging audience like you to join our call and we look forward to connecting with all of you again and in the interim please stay safe. Thank you so much.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.